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# Economic Reforms in India: Intiatives, Evolution and Development Outcomes

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**INTRODUCTION:**

Economic reforms in India refers to a broad set of structural policy changes aimed at improving efficiency, productivity, competitiveness and institutional effectiveness with in the economy. These reforms are deeply embedded in India's political economy and reflects the interaction between state capacity, democratic governance and global economic pressures. After independence India adopted mixed economy model influenced by socialist planning and developmental state theory. The state assumed a commanding role in industrialization, infrastructure development and resources allocation through centralised planning mechanisms. This strategy was designed to overcome colonial underdevelopment and achieve self-reliance. However, by 1980s this system exhibited structural weaknesses including low growth, inefficiency, fiscal stress and external vulnerability. The balance of payment crisis of 1991 marked a decisive turning point, compelling India to adopt structural adjustment polices that fundamentally reshaped its economic trajectory. Since then, reforms have unfolded in phases, moving beyond macroeconomic stabilization towards deeper institutional and governance transformation.

**Pre-Reform Economic Structure:**

The economic situation of India before the post reforms is that the leadership decided to develop India through state lead socialism. This was called as the Nehruvian model of development. However, after three decades the model resulted int over interventionist state which has also been called as over developed state. The Indian economy was entangled into LQPR (license quota permit raj). By the beginning of 1990s India was facing the double-digit inflation, gross fiscal deficit above 7.5% of GDP, the forex reserves were just sufficient for 15 days of imports. The per capita income was growing at less than 1.5% such rate was termed as Hindu rate of growth by economist Rajkrishna. This means India was facing balance of payment crisis. The political situation before the reforms, from 1989 onwards India saw political instability, coalition government and even minority government. With the start of 1990s there was political turbulence around mandal and kamandal factors.

I nternational situation before the reforms is After the disintegration of USSR in 1991, the world became unipolar with USA as the only superpower. Francis Fukuyama called this moment as the "end of the history" moment. The Indian leadership wanted to restructure the foreign policy to align it with USA. The immediate opportunity came to India because of Sadam Hussein's offensive in Kuwait. Clearly India was in a situation which is called as TINA situation (there is No alternative). The only Alternative India had was to liberalise the Indian economy. Dr. C. Rajamohan compared this situation with the situation in China under Deng Xiaoping in mid 1970s. Indian leadership also followed the similar approach that China had done.

**Evolution of Economic reforms**

The economic reform process in India has been driven by a series of deliberate policy initiatives aimed at transforming the structure, functioning, and governance of the economy. These initiatives were not confined to a single sector but extended across industry, trade, finance, taxation, public enterprises, and welfare delivery systems. Together, they sought to reduce state control, enhance market efficiency, improve competitiveness, and integrate India with the global economy while retaining a developmental role for the state.

On 24th July 1991, the then finance minister Dr. Manmohan Singh started his Budget speech with a quote from French poet Victor Hugo “Nothing is more powerful than an idea whose time has come.” He was talking about the idea of liberalising Indian economy. Liberalisation means limiting the control and regulation at various levels of economy so that the direction of economy can be decided based on market forces. It means a clear shift from public sector to private sector.

One of the earliest and most significant reform initiatives was industrial policy reform, which dismantled the system of industrial licensing that had restricted private sector growth for decades. The New Industrial Policy of 1991 abolished licensing requirements for most industries, reduced the number of sectors reserved for the public sector, and encouraged private and foreign investment. It marked a shift in the state’s role from direct producer to facilitator and regulator. The private sector allowed to enter manufacturing of several items which are earlier reserved either for the government or for small scale industries. This initiative fostered competition, improved productivity, and allowed Indian industries to modernize. Reforms in the public sector focused on reducing the burden of loss-making enterprises and improving efficiency. Disinvestment initiatives allowed the government to sell stakes in public sector enterprises, while strategic sectors were opened to private participation. Public–Private Partnerships became an important mechanism for infrastructure development, enabling private capital and expertise to contribute to roads, airports, power, and urban services.

Another major initiative was trade policy reform, aimed at integrating India into the global trading system. The government progressively reduced import tariffs, removed quantitative restrictions, and simplified export-import procedures. Exchange rate reforms moved India toward current account convertibility, making trade transactions smoother. These measures enhanced export competitiveness and diversified India’s trade basket, especially in services such as information technology, pharmaceuticals, and business process outsourcing. The import duty was brought down from 300% to just 50%. Exchange rate reforms were done and Indian rupee was devaluated twice in 1991 first by 16% and then by 6%. Capital market reforms were undertaken by the security and the exchange board of India. This improved transparency and investor protection in capital markets. Interest rate deregulation and development of money markets increased financial efficiency private sector banks including the foreign joint ventures were allowed to initiate and expand their operations in India. The budget was criticised from wide spectrum of political ideology, from red to saffron. Former PM Chandra Shekar criticised the economic reforms and compared it with arrival of east India company.

**Post-Reform Situation in India:**

1991 reforms considered as the most notable events in the economic history of India. There has been substantial improvement in GDP number which increased from $512 billion in 1991 to around $4.18 trillion presently. The GDP growth rate has improved from less than 4% before reforms to around 6.5% post reforms. the average annual rate of Inflation remained less than 5% and forex reserves are around 700 billion dollars enough to cover the import for 15 months. Indian economy has been a favourite destination for international investors, and the foreign direct investment has increased from $236 million in 1991 to $ 35.18 billion in budget year 2025-26.

However, the changes brought by the 1991 liberalisation resulted into the restructuring of Indian economy. The dependency on agriculture decreased which has resulted into the more stable economic growth rate. As per the report of world bank, the coefficient of variation in the annual growth rate decline from 80% (1961-1990) to 30% (1990-2024). this has increased the confidence of the investors in Indian economy. India has developed a robust PPP model (public – private partnership) where in the private sector brings in finances, technology as well as human resources. Presently the private sector has been involved in defence production as well as in space. A major structural change came because if sudden expansion of middle class in India. This has further resulted into political and social changes.

Trade liberalisation exposed agriculture to global price fluctuations, while gradual reductions in state support and rising input costs increased farmer vulnerability. Although some segments such as horticulture, dairy, and high-value crops benefited from improved market access, the overall sector faced persistent agrarian distress, indebtedness, and income insecurity. The uneven distribution of gains between large and small farmers made agricultural reform a politically sensitive issue, influencing electoral politics and public policy debates.

The services sector emerged as the largest beneficiary of economic reforms. Liberalisation in information technology, telecommunications, finance, aviation, and tourism contributed to rapid expansion. India became a global hub for IT and business process outsourcing, generating urban employment and expanding the middle class. However, service-sector growth has been skewed toward skilled labour, while a significant portion of the workforce remains engaged in informal and low-paid service activities. This dualism reflects broader inequalities within the reform process.

Financial sector reforms strengthened banking regulation, capital markets, and financial institutions. Prudential norms, greater autonomy for the Reserve Bank of India, and regulatory oversight by SEBI enhanced stability and investor confidence. The entry of private and foreign players improved efficiency and innovation. Nevertheless, issues such as non-performing assets and uneven financial inclusion persist, demonstrating the limits of market-led financial deepening.

The public sector also underwent restructuring. Disinvestment policies reduced state ownership in several enterprises and shifted the state's role from direct production to regulation and facilitation. While efficiency improved in some cases, labour concerns and resistance from trade unions underscored the political complexities of privatisation. Similarly, reforms in the external sector—through tariff reduction, removal of quantitative restrictions, and encouragement of foreign investment—integrated India into the global economy, increased foreign exchange reserves, and expanded exports. However, this integration also made the economy more vulnerable to global economic fluctuations.

The employment impact of reforms has been mixed. While new opportunities emerged in services and technology-driven sectors, manufacturing did not generate employment at the expected scale, leading to concerns about "jobless growth." The expansion of informal and contract labour has raised issues of job security and social protection. Overall, the sector-wise impact of economic reforms highlights uneven development outcomes, reinforcing the need for policies that balance efficiency with equity and social inclusion.

**Challenges Emerged from Economic Reforms:**

Economic reforms in India, while contributing to higher growth and global integration, have also generated significant structural and socio-political challenges. One of the most pressing issues is the rise in economic inequality. The benefits of reforms have been unevenly distributed across regions, sectors, and social groups. Urban areas and skilled workers have gained more than rural populations and informal labourers, widening the gap between rich and poor. This inequality has important political implications, as it influences electoral behaviour, social unrest, and demands for redistributive policies.

Another major challenge is employment generation. Despite high economic growth, India has experienced what is often termed "jobless growth." Capital-intensive industrial expansion and technology-driven services have not created sufficient employment opportunities for the rapidly growing labour force. A large proportion of workers remain in the informal sector, characterised by low wages, job insecurity, and lack of social protection. This weakens the social legitimacy of market-oriented reforms and raises questions about inclusive development.

The major criticism with respect to reforms has been that it has exposed the Indian economy to external threats. The global financial crisis of 2008 and the COVID 19 pandemic exposed the Indian economy to global economic shocks. Liberalisation has resulted in Symmetric growth amongst the individuals as well as states. Regional imbalances also persist as a challenge. States with better infrastructure, governance, and investment climates have benefited more from reforms, while others lag behind. For example, state like Karnataka, Tamil Nadu, Gujarat, Maharashtra, Punjab, and Haryana have benefited tremendously. On the other hand, stated like Bihar, Uttar Pradesh, Madhya Pradesh have not been able to provide the Ease of doing business. some states like west Bengal have missed the opportunity because of the historical factors and leftist policies. The income inequalities have also increased among the individuals which reflected in the increase in GINI Index, which has increased from 31.7 % in 1993 to 35.7% in 2011.

The strongest criticism comes from the Marxist Economist Prabhat Patnaik who argues that liberalization was not just any policy option rather it was a major episode in the history of class struggle in india.it has resulted into the reconfiguration of class structure. because of the movement of capital at 2 levels:

1.from workers, small businesspeople, and poor people towards bigger capital.
2.from domestic capitalist to global capitalists

Therefore, LPG reforms have transformed the economic base structure of India. He considered these reforms as unconstitutional because the preamble declares India as "socialist" country. however, reforms have taken India on the path of capitalism. It has created an unholy Nexus between capitalists, bureaucrats and politicians.

Thomas Piketty blames the polices of deregulate and liberalisation for such income gap. In his book "The economics of inequality" he concluded that this inequality is not inevitable rather a political choice. The world inequality report however has claims that global inequality has reduced after 1980s when the liberalisation started across the globe. The contemporary global inequality id same as the inequality existing in 1990s, when western imperialism at its peak After the economic reforms India has witnessed jobless growth. This is so because the investment has come mostly in services sector and not in Agriculture or manufacturing. This is the reason Indian economy has jumped from Agriculture sector to the service sector and has missed the opportunity of manufacturing. The pattern of economic growth has created a faultline across gender Gap. Presently less than 25% representation can be observed in the

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female labour force participation. This number decreased to 16% during covid crisis. Therefore, the liberalisation has benefited India, but this benefit was not uniformly distributed.

**Conclusion:**

As per the analysis of Athul Kohli liberalization have given mixed results in context of Indian economy. In his research paper, titled 'Politics of economic liberalisation in India.' He argues that "Marriage of political and economic liberalism may not be an easy one in countries like India." While the government remain committed to liberalize the economy, it cannot resist the pressure from electoral politics. He says that the economic reforms have resulted into upward economic mobility(class) without a similar social mobility(caste). Former Governor of RBI Raghuram Rajan calls India as "a one-eyed king in the land of the blinds" it means Indian economy has developed relatively better than the economies of south Asia, but it did not achieve its full potential. Economist Swaminathan Iyer argue that Indians market reforms happened with a delay of two decades and the non-inclusive approach of government has resulted into humanitarian nightmare.

We can conclude through the suggestions given by former finance minister Yashwanth Sinha who argues against increasing the role of government in Indian Economy, in his book 'confessions of a Swadeshi Reformers.' Former Finance Minister Dr. Manmohan sing in his speech which was delivered on the occasion of 30 years of economic liberalization send that the country trends to act when there is a crisis. However, once it is over status-Quo takes over. He argues that the road ahead is going to be more challenging for the Indian economy than it was in 1991.Therefor he advises Indian leadership not to be complacent.

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